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S. H. KRESS & COMPANY

ANNUAL REPORT

1951

Glendale, California

Huntington Park, California

S. H. KRESS & COMPANY

BUYING-EXECUTIVE OFFICES

114 FIFTH AVENUE, NEW YORK 11, N. Y.

Directors

S. H. KRESS
R. H. KRESS
O. N. BIRKLAND
H. S. BOWERS
J. M. HANCOCK
H. S. DAVIS
O. V. W. HAWKINS
H. L. SPENCER

Officers

S. H. KRESS
Chairman of the Board

R. H. KRESS
Vice-Chairman of the Board

O. N. BIRKLAND
President

H. S. DAVIS
Vice-President

C. G. TRAMMELL
Vice-President

R. F. GARRITSON
Vice-President

E. F. SIBBERT
Vice-President

C. M. FUNK
Vice-President and Treasurer

O. V. W. HAWKINS
Vice-President and Secretary

A. J. OEHLER
Controller

W. M. WEAVER
Assistant Treasurer

W. F. DEMPSEY
Assistant Secretary

A. F. GUERBER
Assistant Secretary

C. H. WILLIAMSON
Assistant Secretary

D. C. WELLS
Assistant Controller

C. M. SKADE
Assistant Controller

General Counsel: DUER, STRONG & WHITEHEAD, New York, N. Y.
Transfer Agent: BANKERS TRUST COMPANY, New York, N. Y.
Registrar: CHEMICAL BANK & TRUST COMPANY, New York, N. Y.

OPERATIONS AT A GLANCE

	Amount 1951	*Cents Per Dollar 1951*	*1950*
RECEIVED:			
Sales to customers	$172,390,827	99.3	99.3
Rental of property, interest, etc.	465,714	.3	.3
Non-recurring special credits	675,171	.4	.4
Total amount received	$173,531,712	100.0	100.0
PAID OUT:			
Merchandise, rent and operating expenses other than taxes, wages and salaries and employe benefits	$116,072,376	66.9	66.3
Taxes paid to Federal, state, county, and municipal governments (not including taxes paid by the Company for employe Social Security benefits)	13,067,206	7.5	7.1
Wages and salaries and other employe benefits paid to:			
All employes other than officers $32,185,152			
Officers 552,882			
Retirement pension and group life insurance contributions 709,340			
Social Security taxes 932,820			
Total	34,380,194	19.8	19.2
Dividends paid to stockholders	7,055,022	4.1	4.3
Total amount paid out	$170,574,798	98.3	96.9
BALANCE:			
Earnings retained for use in the business	$ 2,956,914	1.7	3.1

S. H. KRESS & COMPANY

January 28, 1952

To the Stockholders of S. H. Kress & Company:

THE ANNUAL REPORT of our Company covering operations for the year ended December 31, 1951, is submitted herewith. Included in this report are comparative statements of earnings and financial condition, certified by Price Waterhouse & Co., independent public accountants appointed by the Board of Directors.

Sales

Total sales for 1951 reached an all-time peak of $172,390,827, a gain of $10,733,678 or 6.6% over 1950. Average sales per store amounted to $665,602 as compared with $624,160 in 1950. While there was no increase in the number of stores operated during the year, part of the increase in sales was contributed by new stores open for less than a full year in 1950 and by relocated and enlarged stores reopened in 1951. The bulk of the increase was derived from stores in operation for the full 12 months in both years.

Earnings

After deducting Federal income and excess profits taxes, net earnings for 1951 amounted to $10,011,936 or $4.26 on each share of common stock outstanding. In 1950 net earnings amounted to $12,046,641 or $5.12 per share of common stock.

Net earnings for the year include a non-recurring adjustment of $675,171 for depreciation taken on buildings and fixtures and equipment in the years 1947 to 1950 inclusive, less provision for additional Federal income taxes. This resulted from an agreement reached with the Bureau of Internal Revenue under which depreciation rates on buildings and fixtures and equipment have been reduced to conform to new estimates of the useful lives of the corresponding assets, based upon our experience. The effect in 1951 of the changes agreed to has been to reduce the provision for depreciation and amortization and to increase profits before Federal income taxes by approximately $225,000.

Excluding the adjustment referred to above and the non-recurring tax credit included in net earnings for 1950, the net earnings per share of common stock were $3.97 for 1951 and $4.82 for 1950.

Dividends

Dividends paid in 1951 amounted to $3.00 per share of common stock outstanding. Dividends of the same amount were paid in 1950.

Wages and Salaries

Wages and salaries paid to employes, including officers and directors, amounted to $32,738,034 in 1951.

Special payments to other than executive employes again included the Christmas bonus and Length of Service Compensation, which amounted to $479,461 as compared with $475,726 for the previous year.

In addition to the payments referred to in the preceding paragraphs our Company also contributed $1,642,160 toward the cost of Retirement Pension Benefits, Group Life Insurance, and for Unemployment Insurance and Old Age Benefits for employes.

Total wages, salaries and other employe benefits for 1951 amounted to $34,380,194 or 19.8¢ of each dollar received.

Taxes

Federal income and excess profits taxes on earnings for 1951, exclusive of adjustments applying to prior years, amounted to $10,100,000 compared with $8,900,000 in 1950. The increase in Federal taxes was due entirely to higher tax rates on corporate income adopted by Congress during the year. The provision for Federal taxes on income includes excess profits taxes amounting to $250,000 calculated on the earnings in excess of the Company's excess profits tax credit of approximately $18,000,000 which amount, after normal and surtaxes, was equivalent to $3.88 per share.

During 1951 the total taxes paid by our Company, including Social Security taxes, amounted to $14,000,026 or $5.95 per share of common stock as compared with net earnings from operations of $3.97 per share.

Our Company also collected and remitted to the proper Federal, state and municipal taxing authorities, excise and sales taxes amounting to $6,184,082.

In addition, many other taxes are collected by Federal, state and municipal taxing authorities as a result of the Company's operations. Such taxes include employes' withholding taxes on income, Social Security

taxes paid by employes, and the many hidden taxes included in the cost of merchandise and services purchased by our Company. The earnings of the Company, when paid out in dividends, are again subject to tax as income to the shareholders. Finally, there is the undetermined cost of collecting and accounting for the multitude of taxes imposed upon business today.

Inventory

Inventories of merchandise on hand and in transit amounted to $29,176,614 as compared with $32,064,210 at the end of 1950. Inventories are in line with normal requirements and, with the exception of a few lines of merchandise, principally metal goods, no difficulty is being experienced in obtaining deliveries.

Until 1951 it had been the Company's policy to inventory all merchandise on hand at cost or market price, whichever was lower. At the time the 1949 and 1950 inventories were taken tests were made of the "Retail Inventory Method" and, as a result, the retail method was adopted in 1951 in all departments except the Soda & Lunch department. Approval of this change, which did not materially affect the valuation of the inventory, has been secured from the Treasury Department.

It is believed that the use of the retail method will provide a more practicable method of determining the value of the inventory in periods of fluctuating prices and will simplify the taking of the inventory, with resulting economies at stores and New York Office.

New Stores—Future Expansion

There were 259 stores in operation at the end of the year, the same number as in 1950. During the latter part of 1951 new stores were opened to replace existing stores in Huntington Park and Glendale, California. Stores in the following cities were enlarged and/or rehabilitated:

DOTHAN, ALA.
FORDHAM ROAD, NEW YORK CITY
NEW BERN, N. C.
MAIN STREET, HOUSTON, TEX.
WEST JEFFERSON AVE., DALLAS, TEX.

In 1951 expenditures for land, buildings, and fixtures and equipment amounted to $6,768,521.

New store buildings are being constructed at Jackson, Miss. and Roswell, New Mexico, and will be opened late in 1952. Our store in Mobile, Ala. is being enlarged and it is expected that the additional space will be opened for business in June of this year.

Plans have been completed or are being worked on for 7 stores in new locations and 4 new stores to replace existing units. Eighteen stores will be enlarged and a number of existing stores rehabilitated. No difficulty is expected with the completion of the construction now under way. Every effort is being made to secure the approval of Federal authorities for new construction work planned but not already started.

Shareholders

At the end of 1951 the common stock of our Company was owned by 8,861 shareholders, of whom 1,022 were employes of the Company.

A recent survey of the shareholders of the common stock of our Company indicated that it is owned by investors residing in every state of the country. This analysis also disclosed that women comprised the largest single group of shareholders, there having been over 4,000 women shareholders at the time the analysis was made.

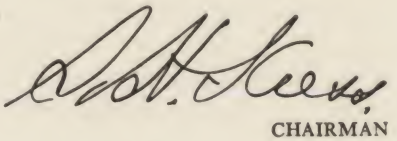
Personnel

During 1951 the number of employes with the Company 10 years or more increased to 1,147. In recognition of long service and loyalty, gold watches, appropriately inscribed, were presented to 202 men and women who had been with the Company 25 years or more. In the future all employes upon reaching their 25th anniversary of employment will receive the same token of appreciation.

The wholehearted cooperation received from all members of our organization was responsible to a large degree for the successful results accomplished in the face of the problems created by the adoption of price and wage controls in January, 1951 and by the loss of many experienced employes to defense industries.

Suppliers

The thousands of companies upon whom we rely for the superior values sold in Kress stores have continued to render outstanding service in helping our Company to offer the best possible values at the lowest possible prices. These companies have, likewise, been working under difficult conditions and their splendid cooperation is acknowledged with thanks.



CHAIRMAN

S. H. KRESS & COMPANY

Statement of Earnings

	Year Ending December 31, 1951	*1950*
GROSS SALES	$172,390,827	$161,657,149
Rental received from tenants	461,114	425,504
Interest received (net), etc.	4,600	79,501
	$172,856,541	$162,162,154
Deduct:		
Cost of merchandise sold and operating expenses	$150,739,968	$139,120,499
Provision for depreciation and amortization	2,018,428	2,236,228
Provision for employes' retirement pension plans	661,380	558,786
Provision for Federal taxes on income	10,100,000	8,900,000
	$163,519,776	$150,815,513
NET EARNINGS FROM OPERATIONS	$ 9,336,765	$ 11,346,641
Add Special Credits:		
Credit resulting from adjustment of fixed assets and depreciation accounts, less provision of $600,000 for additional Federal taxes	675,171	—
Excess provision for Federal taxes on income — prior years	—	700,000
NET EARNINGS FOR YEAR	$ 10,011,936	$ 12,046,641
Deduct:		
Dividends paid ($3.00 per share)	7,055,022	7,055,022
EARNINGS FOR THE YEAR RETAINED FOR USE IN THE BUSINESS	$ 2,956,914	$ 4,991,619

S. H. KRESS & COMPANY

ASSETS	December 31, 1951	1950
CURRENT ASSETS:		
Cash	$ 16,824,971	$ 14,535,428
U.S. Government securities, at amortized cost (market value December 31, 1951 —$9,077,800)	9,077,130	10,047,415
Sundry debtors	111,392	220,444
Inventories of merchandise, including merchandise in transit, at lower of cost or market	29,176,614	32,064,210
Total current assets	$ 55,190,107	$ 56,867,497
OTHER ASSETS:		
Loans and advances to landlords and miscellaneous notes receivable	$ 376,590	$ 284,975
Prepaid insurance premiums, rents, etc.	387,464	658,865
Total other assets	$ 764,054	$ 943,840
CAPITAL ASSETS:		
Fixtures and equipment, at cost	$ 20,572,526	$ 18,860,888
Less—Provision for depreciation	13,880,539	14,049,333
	$ 6,691,987	$ 4,811,555
Leasehold improvements, at cost	$ 20,610,382	$ 19,600,857
Less—Provision for amortization	10,425,496	10,067,149
	$ 10,184,886	$ 9,533,708
Land and buildings owned in fee, at cost in cash and capital stock	$ 50,448,411	$ 46,834,859
Less—Provision for depreciation	12,783,080	12,951,805
	$ 37,665,331	$ 33,883,054
Total capital assets	$ 54,542,204	$ 48,228,317
GOOD-WILL, LEASEHOLDS, ETC.	$ 1	$ 1
	$110,496,366	$106,039,655

Statement of Financial Condition

LIABILITIES	December 31, 1951	1950
CURRENT LIABILITIES:		
Accounts payable—trade creditors	$ 1,140,355	$ 1,022,357
Accounts payable—merchandise in transit	1,323,967	1,836,469
Accrued salaries and expenses, and miscellaneous accounts payable	6,592,385	5,941,788
Federal taxes on income	10,345,570	9,101,865
Total current liabilities	$ 19,402,277	$ 17,902,479
CAPITAL:		
Capital stock:		
Special preferred stock—6% cumulative—		
Authorized—1,000,000 shares of $10 each		
All issued shares reacquired for treasury		
Common stock without par value—		
Authorized—2,678,787 shares		
Issued—2,357,574 shares	$ 48,511,253	$ 48,511,253
Accumulated earnings retained for use in the business	$ 42,701,353	$ 39,744,440
Less—Cost of 5,900 shares of common stock reacquired	118,517	118,517
	$ 42,582,836	$ 39,625,923
Total capital stock and accumulated earnings	$ 91,094,089	$ 88,137,176

NOTE: At December 31, 1951 the Company was obligated under 154 leases expiring after December 31, 1954, some of which require, in addition to the minimum rentals now being paid, payments of additional rentals based on sales, and payments of real estate taxes, maintenance and insurance. The aggregate amount charged against operations for the year 1951 under all leases was $3,075,516.

	$110,496,366	$106,039,655

ACCOUNTANTS' REPORT

PRICE WATERHOUSE & CO.
56 PINE STREET, NEW YORK

January 28, 1952

To the Stockholders of S. H. Kress & Company:

We have examined the statement of financial condition of S. H. Kress & Company as of December 31, 1951 and the related statement of earnings for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the accompanying financial statements present fairly the financial position of S. H. Kress & Company at December 31, 1951, and the results of its operations for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Price Waterhouse & Co.

Ten Year Comparative Record

OF SALES, EARNINGS, AND DIVIDENDS

Year	*No. of Stores*	*Sales*	*Earnings Before Federal Taxes on Income*	*Federal Taxes on Income*	*Net Earnings After Federal Taxes on Income*	*Net Earnings Per Share of Common Stock*	*Dividends Paid Per Share* COMMON	PREFERRED
1942	244	$116,958,589	$15,955,862	$10,517,000	$ 5,438,862	$2.13	$1.60	$ .60
1943	244	124,021,970	17,118,585	11,600,000	5,518,585	2.16	1.60	.60
1944	243	127,955,060	20,034,632	14,300,000	5,734,632	2.25	1.60	.60
1945	244	126,038,945	16,687,280	11,675,000	5,012,280	2.13	1.60	(a)
1946	242	150,926,508	20,785,531	8,000,000	12,785,531	5.44	4.20	—
1947	243	155,359,900	20,572,077	7,900,000	12,672,077	5.39	3.50	—
1948	250	165,366,617	20,638,578	7,800,000	12,838,578	5.46	4.25	—
1949	256	163,923,437	16,148,204	6,100,000	10,048,204	4.27	3.00	—
1950	259	161,657,149	20,946,641(b)	8,900,000	12,046,641(b)	5.12(b)	3.00	—
1951	259	172,390,827	20,111,936(c)	10,100,000	10,011,936(c)	4.26(c)	3.00	—

(a) All issued shares of 6% Special Preferred Stock reacquired in December 1944.

(b) Includes restoration of excess provision for Federal taxes on Income for prior years amounting to $700,000 or 30¢ per share.

(c) Includes restoration of depreciation taken in prior years, less Federal taxes, amounting to $675,171 or 29¢ per share.

KRESS STORES

ALABAMA (13)
- Anniston
- Bessemer
- Birmingham
- Dothan
- Ensley
- Gadsden
- Huntsville
- Mobile
- Montgomery
- No. Birmingham
- Prichard
- Selma
- Tuscaloosa

ARIZONA (5)
- Douglas
- Nogales
- Phoenix
- Tucson
- Yuma

ARKANSAS (6)
- Blytheville
- Fort Smith
- Helena
- Hot Springs
- Little Rock
- Pine Bluff

CALIFORNIA (44)
- Alhambra
- Anaheim
- Bakersfield
- Berkeley
- Calexico
- El Centro
- Eureka
- Fresno
- Glendale
- Huntington Park
- Inglewood
- Long Beach
- Los Angeles (12)
- Modesto
- Oakland
- Pasadena
- Pomona
- Richmond
- Riverside
- Sacramento
- Salinas
- San Bernardino
- San Diego
- San Fernando
- San Francisco (2)
- San Jose
- San Pedro
- Santa Ana
- Santa Barbara
- Santa Monica
- Santa Rosa
- Stockton

COLORADO (7)
- Boulder
- Colorado Springs
- Denver
- Grand Junction
- Greeley
- Pueblo
- Trinidad

FLORIDA (14)
- Daytona Beach
- Jacksonville (2)
- Key West
- Lakeland
- Miami
- Miami Beach
- Orlando
- Pensacola
- St. Petersburg
- Sarasota
- Tampa
- West Palm Beach
- Ybor City

GEORGIA (14)
- Albany
- Americus
- Athens
- Atlanta (2)
- Augusta
- Brunswick
- Columbus
- La Grange
- Macon
- Rome
- Savannah
- Valdosta
- Waycross

HAWAII (4)
- Hilo
- Honolulu
- Lihue
- Wailuku

IDAHO (3)
- Boise
- Idaho Falls
- Pocatello

ILLINOIS (2)
- Cairo
- Rockford

KANSAS (13)
- Arkansas City
- Chanute
- Coffeyville
- Emporia
- Fort Scott
- Hutchinson
- Independence
- Iola
- Lawrence
- Parsons
- Pittsburg
- Salina
- Wichita

KENTUCKY (3)
- Ashland
- Hopkinsville
- Winchester

LOUISIANA (6)
- Alexandria
- Baton Rouge
- Lake Charles
- Monroe
- New Orleans
- Shreveport

MISSISSIPPI (8)
- Biloxi
- Greenville
- Hattiesburg
- Jackson
- Laurel
- Meridian
- Natchez
- Vicksburg

MISSOURI (6)
- Carthage
- Jefferson City
- Moberly
- Nevada
- Trenton
- Webb City

MONTANA (2)
- Billings
- Great Falls

NEW JERSEY (2)
- East Orange
- Summit

NEW MEXICO (1)
- Albuquerque

NEW YORK (4)
- New York City (4)

NORTH CAROLINA (13)
- Asheville
- Charlotte
- Durham
- Fayetteville
- Gastonia
- Goldsboro
- Greensboro
- High Point
- New Bern
- Rocky Mount
- Salisbury
- Wilmington
- Winston-Salem

OHIO (1)
- Youngstown

OKLAHOMA (15)
- Ardmore
- Bartlesville
- Blackwell
- Chickasha
- Enid
- Guthrie
- Lawton
- McAlester
- Muskogee
- Oklahoma City
- Okmulgee
- Ponca City
- Sapulpa
- Shawnee
- Tulsa

OREGON (2)
- Portland
- Salem

PENNSYLVANIA (1)
- Altoona

SOUTH CAROLINA (8)
- Anderson
- Charleston
- Columbia
- Florence
- Greenville
- Greenwood
- Spartanburg
- Sumter

TENNESSEE (10)
- Bristol
- Chattanooga
- Elizabethton
- Jackson
- Johnson City
- Kingsport
- Knoxville
- Memphis
- Nashville (2)

TEXAS (36)
- Amarillo
- Austin
- Baytown
- Beaumont
- Brownsville
- Corpus Christi
- Corsicana
- Dallas (2)
- Del Rio
- Denison
- Eagle Pass
- El Paso
- Fort Worth
- Gainesville
- Galveston
- Greenville
- Harlingen
- Hillsboro
- Houston (3)
- Laredo
- Longview
- Lubbock
- Paris
- Port Arthur
- San Angelo
- San Antonio (2)
- Sherman
- Texarkana
- Tyler
- Waco
- Waxahachie
- Wichita Falls

UTAH (3)
- Ogden
- Provo
- Salt Lake City

VIRGINIA (1)
- Roanoke

WASHINGTON (12)
- Aberdeen
- Bellingham
- Bremerton
- Everett
- Seattle (4)
- Spokane
- Tacoma
- Wenatchee
- Yakima

Total – 259 Stores in 29 States and the Territory of Hawaii

PRINTED IN U.S.A.

Salem, Oregon

Columbia, South Carolina

East Orange, New Jersey

KRESS